



SECTION 2

The Activity View of the Budget

2.1 The Activity Inventory is an activity view of the budget

Agencies will also present the budget by activity



This year, agencies will prepare and submit an activity view of the budget in addition to the traditional decision package orientation described in chapters three through six. The Budget Development System (BDS) has been modified to support this requirement and to include activity description and performance measure information in the budget database.

What is an activity?

An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and produces a product, service, or outcome. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know, "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work performed by state government. The activity view of government has come to play an important role in budget analysis and decision-making.

The Activity Inventory describes what agencies do

The Activity Inventory describes the major activities of each agency. Each activity description should include the following information:

- A title that describes the nature of the activity (rather than an organizational name);
- A brief description of the activity, its purpose, and its intended recipient or beneficiary;
- The expected results of the activity (conveyed as one or more performance measures and/or as a concise narrative description of outcomes);
- The primary statewide result area to which the activity contributes;
- Other statewide result areas to which the activity contributes; and
- A notation of the budget programs related to the activity.

The Activity Inventory is now another view of the budget



In the past, the Activity Inventory was a stand-alone reference report. We have now added the activity description information into BDS so that budget amounts can be linked to activities. The activity inventory is now a part of the budget database, and this provides the ability to prepare and present an activity view of the budget.

Agencies will be required to assign certain totals and increments to activities in order to build a complete activity view of the budget.

Current Biennium: Agencies have already provided by activity

+ Carry-forward increments: Optional by activity

+ Maintenance level increments: Optional by activity

Subtotal Maintenance Level: Required by activity (Maintenance Level Total -- can be viewed by activity)

+ Performance level increments: Required by activity

Proposed Budget Total: Can be viewed by activity

2.2 What are the budget submittal requirements?

Agencies must present certain subtotals and decision packages by activity



This year, agencies must prepare and submit an activity view of the budget in addition to the traditional step table view. To prepare this view, agencies at a minimum must:

1. Allocate the maintenance level subtotal to activities, and
2. Allocate each performance level decision package to the affected activities.

These requirements are described in greater detail below. Presenting the current biennium level total, maintenance level subtotal, and the performance level decision packages by activity will provide an activity view of the total budget for the agency.

Allocate maintenance level to activities

The agency budget submittal must present the maintenance level totals by activity – by account and fiscal year. OFM will already have the current biennium estimates by activity from the 2004 supplemental update. Agencies may choose to assign the costs of some or all carry-forward or maintenance level decision packages to activities, but this is not required. In some way, the entire subtotal must be assigned to activities to provide the activity view of the budget through maintenance level. The agency budget cannot be submitted to OFM until all these costs and FTEs have been assigned to activities.

BDS provides various options for agencies to assign these costs – by account and fiscal year – to activities. We strongly recommend that you work with Vicki Rummig, BASS Product Manager, at (360) 725-5268 or Vicki.Rummig@ofm.wa.gov to explore the option that may be best for your agency.

Allocate each performance level decision package to activities

Agencies are required to indicate how the costs – by account and fiscal year – and FTEs of each Performance Level decision package should be assigned to activities. BDS now enables users to indicate the activity costs by account and fiscal year for each decision package.

Add, delete or edit activities to reflect the budget submittal

Agencies will have the ability to add, delete, or edit activities if needed to reflect the budget proposal. To eliminate the need for OFM to review and edit every activity description submitted, most of the activity description fields for existing activities will be locked. Please contact your OFM analyst if you believe a locked activity description needs to be edited.

Provide information about non-budgeted funds supporting activities

Because the activity inventory is now a part of the budget system, the numbers reflected in the activity totals will only reflect budgeted funds. If an agency has an activity that is significantly supported by non-budgeted revenues, please mention this in the activity description and note the dollar amount and fund source.

Include the Activity Inventory report in the budget submittal

Agencies are required to include a copy of the Agency Activity Inventory report in their submittal. This report can be run in BDS. The report will include the descriptive information for each activity, including linked performance measures and expected results statements. See Section 9 for a discussion of performance measures.

2.3 How to treat administrative costs in the Activity Inventory

Activity costs should include related administrative costs essential to support that activity

The activity inventory should provide a reasonable estimate of the full cost of activities. Part of the full cost of any activity would include related administrative costs that are essential to support the activity.

Administrative costs can be broken into two components: indirect costs and overhead costs. These instructions describe how to handle these two types of costs in the activity inventory.

Definitions

We realize many of the cost terms used here mean different things in different organizations. Please use the definitions below for the purpose of developing activity inventory estimates.

Allocate indirect costs to activities

Indirect costs are administrative costs that are linked to two or more activities, are closely related to and tend to vary with activity level or size, but usually cannot be practically or economically direct-charged. These costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but here are some possible examples:

- Rent costs (if these are not already direct charged)
- Postage costs
- Software development and information technology support costs
- Other shared administrative costs that are closely related to activity levels and size

Show overhead costs as a separate “administration” activity

Every agency has some core administrative functions and costs regardless of the number or size of its activities. These **overhead costs** usually support the entire organization, are not directly attributable to specific activities, and tend to be relatively fixed and not readily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Indicate these costs separately in one “Administration” activity in the activity inventory.

Types of costs that could be classified as overhead costs may vary from agency to agency, but here are some possible examples:

- Salary and support costs for the agency director
- Core portions of accounting, budgeting, personnel, communications, and receptionist functions
- Other shared administrative costs that are not closely related to activity levels and size

OFM is not concerned that each agency classifies the same type of cost in the same way. We most want to ensure that activity costs include administrative costs that are critical to support the activity and achieve its intended outcomes.

Certain agencies are not required to have a separate administrative activity

As part of the update to the activity inventory in the fall of 2003, OFM determined that some agencies (those with only a few activities) were not required to break out overhead costs as a separate administration activity. These agencies should not add an administrative activity for the budget submittal.

How should indirect costs be allocated to activities?

Indirect costs should be assigned to activities on some generally accepted cost allocation basis. We encourage agencies that already use a cost allocation methodology for some accounting purpose to use that method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of FTEs in each activity;
- Allocating by the total dollars budgeted for each activity; and
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For example: IT staff costs by the number of PCs or rent costs by the number of square feet.

Provide allocation information to OFM



The allocated costs should be included in the total costs for the activities. Agencies must also provide OFM with information about the cost allocation approach:

- The total amount of indirect costs allocated;
- A brief description of the allocation method selected;
- The allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity); and
- The dollar amount allocated to each activity each fiscal year.

Please use a format similar to that shown below.

Activity Inventory Indirect Cost Allocation Approach				
Agency ABC				
Date				
Allocation Method Description: Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Allocated
Activity A	20%	\$200,000	\$250,000	\$450,000
Activity B	50%	\$500,000	\$625,000	\$1,125,000
Activity C	10%	\$100,000	\$125,000	\$225,000
Activity D	20%	\$200,000	\$250,000	\$450,000
Total	100%	\$1,000,000	\$1,250,000	\$2,250,000